

Coronavirus: Changing Consumer Behavior and How Businesses are Responding to the Crisis

May 2020



Overview

Coronavirus has changed consumer behavior

Extended lockdowns and stringent social distancing measures have upended consumers' behavior and lifestyles, globally. Even before COVID-19, consumers were already rapidly changing and evolving their purchasing patterns. The pandemic has accelerated this process, and brought about some dramatic new habits.

Many of these new habits will stay, potentially for the long term, even when the pandemic is over.

Consumers have been stockpiling supplies of not only **staple grocery** items, but also **healthcare** products and **medicines**.

Non-essential items such as clothing, jewelry and beauty have seen significant declines.

The accelerating growth in **online shopping** will spur development in adjacent areas, notably digital payment and last-mile logistics. **Paidy**, a Japanese fintech company facilitating online payment without credit cards, raised US\$48m in a Series C extension from **Itochu**. **Ninja Van**, a Singapore-based last-mile logistics provider has raised US\$124m in Series D funding.

Focusing on self-care and home improvement

As the lockdown continues, there will be an increased focus on a broader concept of wellness – **cleaner ingredients, organic and natural food, physical fitness, and mental rebalancing**.

Online demand for cooking and mental health content has grown rapidly as consumers are developing an expansive view of wellness. Online searches for cooking and baking-related terms are surging. As consumers become more mindful of their food choices, the focus is increasingly on less processed food with more natural ingredients including organic food.

Yale's happiness course, "The Science of Well-Being", has attracted 1.5 million subscribers since mid-March, compared to 500,000 over the last two years. **Meditation apps** have seen a spike in downloads as people struggle with anxiety. **Moshi**, a sleep and mindfulness app for children, has raised US\$12m in Series B funding.

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With travel and social events curbed, consumption amongst millennials is shifting back from experiences to purchases, centering around **the home**.

The broader trend will reflect higher expenditure on **home furnishings, kitchenware and appliances**. Work-from-home arrangements may also lead to a permanent shift in workplace format, and change how consumers design and use their home space.

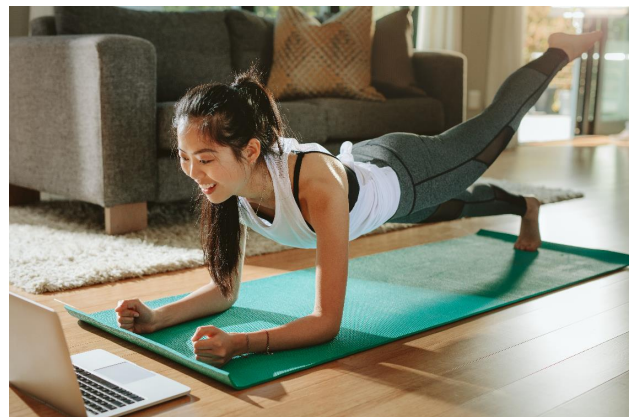
Virtual classes and home fitness regime

Fitness clubs and gyms are, for now, closed in most countries. Consumers are turning to virtual fitness classes and investing significantly into home fitness gear, which will fundamentally shift and define the fitness sector in the longer term.

Adidas registered record sales of **yoga mats** in Q1 2020. **Aibi**, a Singapore-based producer of **treadmills and elliptical trainers**, saw sales increase by up to 300%. Silver Lake has invested in **Equinox**, the majority shareholder of **SoulCycle**, to help build up its digital platform and to introduce a SoulCycle at-home use bike to tap into this trend.

To acquire and retain users, gyms and fitness instructors are going online, first offering free workout content, and gradually exploring ways to monetize remote fitness experiences. **Mirror**, a technology that streams fitness classes, has reported a rush of new demand.

Personal trainers are finding ways to reach their existing clients through virtual classes on **Teams** and **Zoom**. Other platforms have dropped subscription fees. **Nike** is offering its **NTC Premium** service, a platform for workout videos streaming and training programs, for free.



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Changing business behavior to cope with COVID-19

To keep up with the drastic shifts in consumption behavior, and in anticipation of the future consumer, companies have taken significant measures to boost revenue, manage costs and improve operational efficiencies.

Food service companies have accelerated their shift towards online delivery and heavily promoted take-out options. **Putien**, a Singapore-based Chinese restaurant, launched a **Takeaways Specials** promotion, offering their most popular dishes at reduced prices – unheard of for a one-star Michelin restaurant.

Emerging brands across the world, from **activewear** by **Lorna Jane** and **Alo Yoga**, to bedding products by **Brooklinen**, are offering aggressive discounts to boost revenue. Others, including **Apple**, **Sephora** and demi-fine jewelry brand, **Monica Vinader**, are extending free return periods.



Retailers are demanding rent reductions. **Related Companies**, a major US real estate developer and owner, reported that “only about 25%” of its retail tenants paid rent in March.

As companies navigate this unprecedented period of difficulty, market participants are exploring how to optimize their supply chains and cost base. Some will undoubtedly emerge stronger while others will falter and eventually go bust.

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How soon will consumers come back post COVID-19 and which companies will thrive

Consumer spending will rebound post-coronavirus – the question is how fast and how far. We are already seeing evidence of pent-up demand and delayed consumer discretionary spending.

When **Hermès** reopened its second largest Guangzhou flagship store, it generated US\$2.7m, the single highest daily revenue for a single store in China, offering a tantalizing glimpse into one possible form the economic recovery might take.

Wealthy customers bought non-COVID essentials: tableware, shoes, furniture and leather goods. Some spent hundreds of thousands of dollars on crocodile leather goods – suggesting that the pandemic has left some high-end customers ready to engage in conspicuous retail therapy.

Big corporates with sizeable cash reserves and access to extensive cheap capital are best placed to respond to crises. Their strong balance sheets will help them navigate a prolonged global disruption and gain market share.

Small and Medium Enterprises (SMEs) with limited cash balances are more vulnerable. Although interest rates are low, smaller companies are struggling to access financing as risk aversion sets in with the banking community. Some are desperately looking for rescue funding to stay afloat; others are letting their employees go.

Deal-making and private equity during COVID-19

Travel restrictions and local lockdowns have significantly slowed down the M&A market.

Most companies have redirected their management teams to focus on **preserving cash** rather than pursuing acquisitions. Executives are taking voluntary pay-cuts, furloughing or laying off staff.

Executives are also being asked to provide updated business plans, re-run budgets and assess liquidity needs, factoring a U-shaped rather than V-shaped recovery.

Mid-market private equity players are being more cautious for now, tending to their own portfolio companies, drawing down credit lines, pruning costs, and preparing for a longer period of subdued trading.

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However, with the private equity industry sitting on a record cash pile of US\$2.5tn across all fund types, according to Bain & Co., some big players are making counter-intuitive, counter-cyclical bets. They are actively seeking deals across the industries hard-hit by COVID-19, such as the travel, entertainment and energy sectors. **Silver Lake** and **Sixth Street Partners** invested US\$1bn **Airbnb** in April, as an example.

Some western private equity firms are being opportunistic and have shifted their focus towards taking advantage of distressed opportunities and making **PIPE investments**, into companies who need cash urgently. **Silver Lake**, **Advent**, **KKR** and **Apollo**, for instance, see the chance to acquire assets at much cheaper prices than last year. They will move opportunistically and aggressively.

While western players have started to move forward with more confidence, we expect Asian private equity players to follow quickly.

True Capital, a European consumer private equity player, has taken a 50% stake in fashion brand **Hush**, a UK e-commerce brand with US\$75m revenues, focused on casual womenswear, including pajamas and loungewear. Hush claims an agile, digital-first business model, loyal customer base and relevant, contemporary product range. The CEO of True Capital, Matt Truman said: "We think highly profitable, predominantly direct to consumer brands such as Hush are the ones that will emerge in best shape from this current crisis... we're very much open for business and excited about the opportunity ahead of us."

We are also seeing global rescue investment in the most troubled sectors.

Engage Brands, a US operator of Pizza Hut, Checkers & Rally's franchises, has acquired restaurant chain **Boston Market** from **Sun Capital Partners**. The restaurant industry is facing extreme challenges. Social distancing is restricting restaurants to take-out and delivery offerings only, and chains have seen a drastic drop in sales. "Engage Brands brings an enthusiastic, experienced, and successful ownership group to Boston Market, as well as access to resources that we need to continue to operate our business in this challenging environment," said Eric Wyatt, CEO of Boston Market.

Steiner Leisure, an **L Catterton** affiliate, alongside funds advised by Neuberger Berman, has invested US\$75m to support the management of **OneSpaWorld Holdings Limited (NASDAQ: OSW)**, a global provider of health and wellness services and products on-board cruise ships and in premium destination resorts around the world.

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L Catterton has also made a significant investment in **ETVOS**, one of Japan's leading natural cosmetics brands, to bolster growth by expanding store-footprint and enhancing customer experience. Founded in Osaka in 2007, ETVOS provides 100% made-in-Japan mineral-based makeup products.

These trends will come to Asia – though Asian private equities are remaining more conservative for now.

BDA still closing deals

Notwithstanding the pandemic, BDA continues to help clients close transactions, including:

- The sale of **Sichuan Huiji Food**, a leading branded, better-for-you snack company in China, to Grass Green and New Hope Group
- The sale of **Thinh Phat Cables** and **Dong Viet Non-Ferrous & Plastic** to Stark Corporation PCL of Thailand
- The sale by **Henkel** of its Asian electronic cleaning chemicals business to Nippon Kayaku, a Japanese specialty chemicals company
- The acquisition by **Rich Foods** of the outstanding 50% equity in its Indian JV, Rich Graviss, a market-leading bakery ingredients business

We believe **transaction activity will bounce back** once the virus is contained. Opportunistic investors, particularly private equity firms who are holding record dry powder, are eager to find deals at the right valuation.

Investors will favor **recession-resilient** and **defensive industries** that will withstand the market downturn.

Sectors such as **technology, healthcare, business services, essential consumer supplies, EdTech**, and **O2O businesses** will receive increased attention

Deal valuations will be somewhat subdued for the coming months. The public markets have seen a lot of volatility as a result of uncertainty and panic selling induced by COVID-19. Some major stock markets dropped by more than 20%, signaling a potential adjustment to company valuations, at least in the short term.



















We expect to see more **domestic rather than cross-border deals** done in the near-term, until travel bans and prolonged lockdowns in major cities are lifted.

Appendix





















Strategies adopted by consumer businesses to combat COVID-19 (1/3)

Businesses have adopted new sales channels and introduced special sales and promotions

Strategy	Practice	Examples
Alternative sales channels	 Offering takeaway and delivery services	 Lady M has recently become available on Deliveroo
		 Pandamart provides 15-minute deliveries partnering with local traders, including convenience chain Circle K, snack store Okashi Land, craft beer manufacturer Heroes Beer, and kitchenware store, I Love Kitchen
		 Hong Kong bars such as The Old Man, Whisky & Words, and 001 have introduced bottled cocktails for takeaway and delivery
		 JIA Group has recently introduced JIA Everywhere, private dining options for singles and families, including customized delivery, catering sets, meal box delivery and “Chefs at Home”
Sales and promotions	 Online sales / services	 IKEA has recently launched online retail and opened its flagship store on Tmall
		 Koolearn, leading online education platform in China, has provided free online K-12 courses to schools and students
	 Providing discounts	 Lorna Jane, the sportswear brand, announced 30% sales off web purchases
		 Giordano put forward “more purchase, more discount” for its combos of the basics, which is exclusive online
Sales and promotions	 Extending the free-return period	 Brooklinen, an online bedding products brand, offered 25% discount on loungewear products as more people stay or work from home
		 Monica Vinader is extending return days to 100 days instead of 30 days
		 Apple will accept returns up to 14 days after they reopen stores for most products
		 Sephora increased its online order returns to 60 days
Sales and promotions	 Lucky draw	 Wellcome, the supermarket chain, is running lucky draws for purchase above HK\$60 (US\$7.7) to boost sales





Strategies adopted by consumer businesses to combat COVID-19 (2/3)

Cost reduction and operational efficiency improvements to manage day-to-day costs and retain cash

Strategy	Practice	Examples
Cost management and reductions	 Negotiating for lower rent costs	 Consumer groups in Hong Kong, such as Bluebell, Patrizia Pepe, GEOX, Lacoste, and Bon Point went on strike in February demanding for lower rents
		Shopping malls and owners of shophouses in Malaysia have been urged to give their tenants rental rebates from 30% to 50% for the next six months
		Retailers and F&B operators in Singapore are calling for a temporary rent reduction, pegged solely to their gross turnover for the next few months
	 Cutting management costs	 Jewelry giant Chow Tai Fook has reduced executive directors' salaries by 30%
		 Genting Singapore, the integrated resorts operator announced to cut salaries of senior management and managerial staff by 9% – 18% as part of cost control measures
		 Grab's senior leaders will take a pay cut of up to 20% to help the business and its partners cope with the negative impact of the pandemic
	 Temporary shut-down	 Vietnam Airlines has cut the salaries of senior managers by 40% and of mid-level managers by 20-30% this year
		 Uniqlo has suspended operations at 370 stores in Mainland China as of early Feb
		 Muji has shuttered 138 locations in China as of early Feb
	Operational efficiency improvement	 Workforce adjustment and reallocation
 RedMart in Singapore collaborates with local drivers and tech platforms such as Grab and Gojek to meet unfulfilled delivery workforce demands		
The tourism workforce in Vietnam was asked to take unpaid and temporary leave		
 Upgrade rather than lay off		 Hema, a Chinese food retail and delivery platform, led a “staff sharing” project among the network of F&B companies in China
		A premium Chinese travel agency encouraged employees to use their time to upgrade internal systems, improve skills, and design new products and services to be better prepared for the eventual recovery
		 Enhance digital marketing
 Singapore-based beauty brand Rock & Herb will be concentrating its marketing budget on digital marketing as it rides out the COVID-19 pandemic		
 Setting best practices	 Black Sheep Restaurants have created a playbook detailing every measure they have taken to combat COVID-19 and are offering it free-of-charge online to help fellow restaurateurs and business owners	

Strategies adopted by consumer businesses to combat COVID-19 (3/3)











Some companies have changed product mix to stay competitive under the COVID-19 situation, which could become permanent practices

Strategy	Practice	Examples
<div>Change in product mix</div> 	<div>Offering a set menu at a lower price, or with fewer courses</div>	<div>  <p>Dalloyau is offering a four-course menu for HK\$988 (US\$127) in lieu of the regular six-course menu offered at Café Epure for HK\$1,488 (US\$191)</p> </div>
		<div>  <p>Putien, the Singapore-based Chinese restaurant, has recently launched a Takeaways Specials promotion with their popular dishes at reduced prices – a rare deal for a One Michelin Star Restaurant</p> </div>
		<div>  <p>Sua Xanh, a Vietnam-based startup group offering organic milk products, decided to sell nut-based milk to strengthen the immune system, and searched for useful information to advise customers on ways to detoxify and improve resistance</p> </div>
		<div> <div>Reformation</div> <p>Reformation, a sustainable women's fashion apparel brand, has begun production of face masks and organized other local manufacturers to make five million non-medical masks for non-medical, essential workers, and also started selling mask packs for personal use, small businesses, or donations</p> </div>

Transaction activities under COVID-19









Deal making and capital raise activities have been lively in a few subsectors

Select companies receiving capital in Q1 2020

 Online education	
Company	Description
 猿辅导	Online K-12 afterschool tutoring provider
 分贝工场	K-12 education audio software and hardware developer
 班小二	Education information platform
 英士博	O2O physical training platform
 快思乐	Online piano courses platform
 码王	Online coding courses platform
 WhalesBot	AI robot education provider
 Udemy	Online courses platforms
 Outlier	Online educational platform

 Food and beverage	
Company	Description
 Delion	Chinese F&B importer and distributor
 君乐宝	Chinese infant milk powder and dairy product provider
 SATURN BIRD COFFEE	Chinese coffee product provider
 HEYTEA	Chinese retail chain of tea and soft drinks
 LIUWINE	Liquor new retail operator
 零食很忙	Chinese snack food provider
 IMPOSSIBLE	Alternative meat producer
 CALIFIA	Natural beverage producer

 Online retail	
Company	Description
 妃鱼	Online second-hand luxury goods retail platform
 SWIGGY	Indian online food ordering and delivery platform
 PINKPANDA	Online retail platform
 纷来	Social e-commerce platform
 团爆品	Social e-commerce platform
 云集	JV between online retail platform and manufacturers
 alto	Online retail platform for prescription drugs
 brooklinen	Online bedding products brand
 MODA OPERANDI	Online fashion retailer

 Media and entertainment	
Company	Description
 bilibili	Chinese video sharing website
 ByteDance	Content platform in China and worldwide
 mountaintop	China-based media and entertainment company
 蜻蜓FM	China-based audio broadcast platform
 网易游戏	Game-based social app
 无厘引力	Online video game
	Social media platform
 Quibi	Content and movie streaming services platform

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BDA's Global Coverage

